

June 23, 2006

TO THE CITIZENS OF LEWIS COUNTY:

In accordance with the provisions of Chapter 36.22 of the Revised Code of Washington, the Lewis County Auditor's Office has prepared this Comprehensive Annual Financial Report of Lewis County for the fiscal year ended December 31, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Washington State Auditor has issued an unqualified ("clean") opinion on Lewis County's financial statements for the year ended December 31, 2005. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The basic financial statements, including the government-wide financial statements, the fund financial statements and the notes of the financial statements follow the MD&A. The required supplementary information, combining and individual fund financial statements, and the statistical section complete the CAFR.

Profile of Lewis County

Lewis County was created on December 19, 1845, under the control of the Provisional Government of Oregon and operates under the laws of the State of Washington applicable to a Third Class County.

Lewis County is located in southwestern Washington State 90 miles south of Seattle, 50 miles south of Tacoma, 30 miles south of the State Capital of Olympia, and 80 miles north of Portland, Oregon. Lewis County's largest city is Centralia. The county seat is the City of Chehalis. Centralia and Chehalis are known as the twin cities.

Lewis County covers 2,435.5 square miles and is experiencing moderate growth with a current population of about 70,700 citizens. Lewis County offers the civic and cultural opportunities of the Seattle and Portland area with recreational resources of the Pacific Northwest. These resources include the Washington and Oregon coasts, the Columbia Gorge and the Cascade Mountains, to name a few. Lewis County offers excellent livability and a relatively low cost of living.

An elected board of three county commissioners governs Lewis County. There are 12 independently elected officials as follows: Assessor, Auditor, Clerk, Coroner, (2) District Court Judges, Prosecuting Attorney, Sheriff, (3) Superior Court Judges and Treasurer. All elected officials serve four-year terms. The Chief of Staff is appointed by the board of county commissioners and is responsible for overseeing the following department directors: Community Development, General Administration, Health and Human Services, and Public Works.

Lewis County provides a wide range of services to its constituents, either as stipulated by law, or prompted by public safety or support. Services provided include law enforcement and public safety; superior, juvenile, and district court systems; legal prosecution and indigent defense; jails and corrections; construction and maintenance of county roads and bridges; flood and drainage control; community planning, development, and code compliance; public parks and recreation facilities; and public health care. In addition, the county provides such general governmental services as election administration, voter registration, legal recording, property assessment, tax services, and the issuance of permits and licenses.

Lewis County also is financially accountable for the Solid Waste Disposal District No. 1 of Lewis County which functions in essence, as a department of Lewis County and therefore has been included as an integral part of the Lewis County's financial statements. Additional information on the district can be found in the notes to the financial statements (See Note 1.A.).

The Board of County Commissioners is required to adopt a final budget starting no later than the first Monday in December and not to exceed five days. This annual budget serves as the foundation for Lewis County's financial planning and control. The budget is prepared by fund, function (e.g., Auditor Elections), and department (e.g., Sheriff). Elected officials and department heads may transfer resources within a department as they see fit. Transfers between departments; however, need special approval from the Board of County Commissioners.

Local Economy

Cardinal Glass Industries, Inc.'s construction of a new float glass plant in southern Lewis County represents the largest new addition to the local economy. Cardinal Glass Industries, Inc. is a privately owned manufacturer of insulating glass units used in the wood window and door industry. The company was founded in 1962, and has expanded from a Mid-West regional company to a national company in the 1990's. Currently, the company has grown to more than 5,500 employees located at 27 manufacturing locations around the United States.

The new Cardinal site in Lewis County is located on 103 acres with a 600,000 square foot plant building at an approximate build cost of: \$140,000,000.

Approximately 225 full-time employees will staff the float glass plant, with an annual payroll in excess of \$10,000,000.

The plant will produce 650 tons of float glass primarily for the residential window market. Some of the end uses of the glass produced are:

- Substrate for energy efficient coatings (Low-E) applied at other Cardinal locations. After coating, the glass is fabricated into insulating glass units, and sold to window manufactures. The Low-E insulating glass units fabricated by Cardinal enable homeowners to reduce the heating and cooling load on their homes, saving both energy and money.
- Tempered, or safety glass applications (patio doors, for example).
- Mirrors for projection screen televisions.

The plant is the most environmentally friendly float line erected in the US, and is operating under the most stringent Air Quality permit of any float glass factory in the US.

The Cardinal float glass facility location in the Northwest will enable the Company to service the window industry within the region more efficiently.

Lewis County has experienced an increase in both residential and commercial construction with 600 permits issued for a total of \$182,334,925 in 2005. This was up from last year's total of 513 permits and a valuation of \$53,964,013. Residential site built permits was up 113 from 2004, which appears to be attributable to lower interest rates. There were only eight more commercial construction permits issued in 2005; however, the total valuation increased by \$112,552,317.

The unemployment rate fell to 7.6 percent during 2005. This was a moderate decline from 8.3 percent in 2004.

Major Industries and Employment Trends

Cardinal Glass Industries, Inc. is also planning to construct and equip a high volume tempering glass plant in Chehalis within the Chehalis Industrial Park site. This project upon fruition and within two and one-half years from the plant start-up will create 30 full time jobs with an estimated annual payroll of \$1.5 million.

The Port of Centralia had a very productive year in 2005. The Port has been developing its new Industrial Park II and has recruited five new businesses to that area. The new businesses consist of Michael's Distribution Center, a 1.2 million square foot facility; Centralia Sawmills, a 110,000 square foot facility; Scot Industries a 73,000 square foot facility; Mowatt Construction, a 20,000 square foot facility; and Tarragon Development LLC, who plans to develop 1.2 million square foot of industrial property for private industry.

The Port of Centralia's Industrial Development Park I is one of the major employment destinations in Lewis County. The major tenants consist of WP Sign Systems, Simpson Door Company, Adams Lumber Company, The Chronicle, Cabinet Consultants, Plastic Services and Products, and Roger's Machinery. New tenants to the Port's Industrial Park I are Dick's Brewery and Gorham Printing.

The Port of Centralia's Industrial Development Parks I and II contain 27 businesses and employs approximately 735 people.

The Port of Centralia has been so successful in its operations that it has been able to reduce their tax levy rate each year since 2001. The assessed value of the Port of Centralia for 2005 is \$1,602,858,239.

The Port of Chehalis Industrial Park was formed in 1986 and shares the same district boundaries as the Chehalis School District. The 2000 assessed value of the Port of Chehalis is \$1,082,440,303.

The Port of Chehalis Industrial Park has approximately 48 tenants providing a total of 2,500 full time jobs for local citizens. The largest employer at the Port is the Fred Meyer Retail Service Center with 488 full-time employees.

The second largest employer at the Port of Chehalis is Hardel Mutual Plywood Corporation with 280 full-time jobs.

Cardinal Glass and Mohawk Industries are the newest companies to build within the Park.

Economic Ties to Other Regions

Economic diversification and job gains in trade and distribution have lessened the impact of federal timber and forest policies over the past few years; however, Lewis County still relied on the timber industry for more than 10 percent of its employment. Unemployment is still higher than the state average, qualifying the county for assistance as a "timber distressed" area.

On a more positive note, Lewis County is considered a fourth tier growth county. Spillover effects of the expansion of population and the economy of the Puget Sound area are being felt in Lewis County. Additionally, tourism in eastern Lewis County continues to draw from the regional area and contributes to the local economy.

General Fund Revenues

General Fund revenues for 2005 were \$27.4 million, an increase of \$1.6 million or 6.2 percent in nominal terms over the previous year. Revenue growth in the current year is expected to be approximately 4.5 percent.

The County continues to capture a large percentage of sales tax revenue from major construction projects in the county for planned county building projects and enhancements to technology within the county operations.

Major initiatives

Lewis County Superior Court established a drug court on a pilot project basis in July 2004, which continues to be funded in 2006. Drug courts are being established throughout the state and nation to provide an alternative to felony convictions and imprisonment or termination of parental rights for chemical substance addicts. Drug courts provide a minimum twelve month court supervised treatment, education and life skills program designed to make addicts change their lives to a drug free environment and become normal, ordinary responsible persons. Addicts successfully completing the program are rewarded with having criminal charges dismissed or sentences reduced or with being reunited with their children.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Lewis County for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 1999. At that time it was the eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate for this current report.

This **Comprehensive Annual Financial Report** could not have been prepared without the cooperation of the staff in the Auditor's Office, General Administration Department Accounting Division, and the Treasurer's Office. I would also like to express my appreciation to all members of other departments who assisted and contributed to its preparation.

Respectfully submitted,

GARY E. ZANDELL
Lewis County Auditor